

Central & Eastern Europe Commercial Update

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Central and Eastern Europe Business Information Center (CEEbIC), in cooperation with
the U.S. Agency for International Development

June 2003

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Calendar of Events

June

6/10-6/12

Investment and Business Opportunities Conference

Bratislava and Kosice, Slovakia

6/16-6/17

Montenegro Business and Investment Summit

Budva, Montenegro

July

7/7

First Lithuanian-American Business Forum

Vilnius, Lithuania

7/14-7/19

Business Development Mission to Bulgaria and Romania

Sofia, Bulgaria; Bucharest, Romania

Event details and contact
information on page 5

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Opportunities in Albania's IT and Telecommunications Market

As Albania continues its transition to a market economy, demand for U.S. information technology and telecommunications products is increasing. The market for IT and telecommunications products in Albania has grown 15 to 20 percent annually in recent years. Government procurement projects, including those financed by international financial institutions such as the World Bank and European Bank for Reconstruction and Development, generate growth in this market. Increased foreign investment, primarily in the mobile telecommunications sector, is also a growth factor. While Albania has only 3.3 million people, U.S. companies may wish to consider Albania as a launching point for Southeast European markets.

U.S. IT and telecommunications products enjoy a good reputation in Albania. Albania assesses no or low duties on IT and telecommunications imports and does not have market barriers to prevent the import of such products. While there are some U.S. firms in Albania's computer and software market, there is a significant lack of U.S. presence in the telecommunications market.

Over the next three years, the top sales prospects for IT and telecommunications in Albania include microwave links, fiber-optic connections, GSM infrastructure, customer care and billing systems, LAN/WAN solutions, applications software, networking software, electronic design automation, Internet software, e-business management solutions, enterprise planning, Web-design software, and banking software.

Equipment and Software

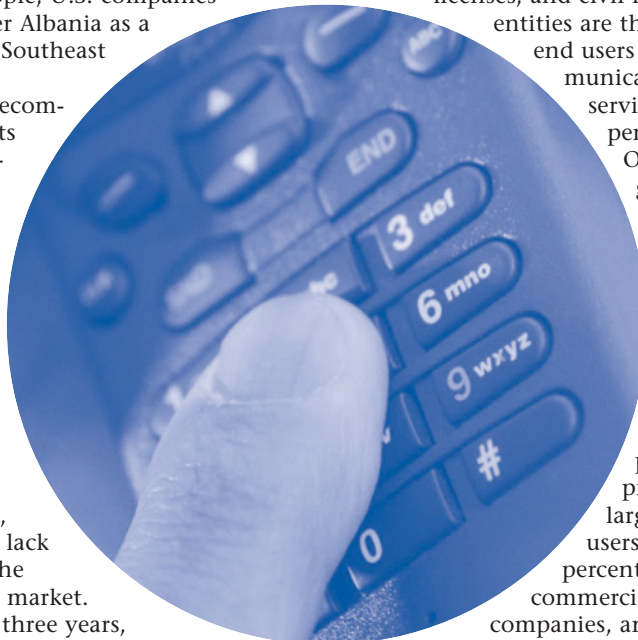
The personal computer market is made up of many U.S. imports, such as Dell, Hewlett-Packard, IBM, Compaq, and Acer products.

Since price is a significant factor, other lower-quality and lower-priced products from Asia also compete in the PC market. On average, the number of PCs sold in Albania is still low, at approximately 25,000 per year; of these, 10,000 to 12,000 are imported. Ninety-five percent of servers and mid-range computers, as well as the majority of routers and other networking hardware, are also imported from the United States.

There are many opportunities for IT and telecommunications equipment providers in the areas of military operations, border control, public safety, identification cards and driving licenses, and civil records. Public-sector entities are the most significant end users of IT and telecommunications products and services, representing 60 percent of overall sales.

Over the past year, government agencies have expressed interest in the implementation of complex telecommunications and IT solutions, including both hardware and software, rather than purchasing individual products. The second-largest group of end users, accounting for 30 percent of sales, consists of commercial banks, insurance companies, and large private enterprises, which regularly upgrade their software. Large Albanian organizations are now moving to custom-made solutions based on hardware and software platforms and are seeking microwave links and base stations, networking hardware, LAN/WAN solutions, banking software, management software, and office application software. Price is a significant factor for all end users.

U.S. software products are highly respected for their reliability and high quality. Major suppliers such as Microsoft, Oracle, Informix, and Sun Microsystems are thoroughly established in the market, dominating software



(Continued on page 6—Albania)

Eye on Southeast Europe



Upcoming Changes in Bulgaria's Energy Sector

The Bulgarian government is planning significant structural changes in the energy sector, including privatization and an orientation toward market principles. These changes are supported by a new energy act passed this year, which anticipates a greater market share of independent power generation as well as the privatization of the electricity-distribution sector. There are also plans to break up the remaining state-owned gas monopolies. The main goals of the new energy act are harmonization with EU standards and liberalization of the energy market. The Bulgarian Ministry of Energy officially announced plans to start liberalizing the energy market from 2004 in line with EU accession requirements and IMF recommendations. The annual revenue of the energy sector is approximately 6 billion Bulgarian leva (\$3 billion).

The end of 2003 will see privatization of the seven regional electricity-distribution companies in Bulgaria. BNP Paribas, consultant to the Bulgarian Privatization Agency, will draw up the privatization strategy, analyze the seven companies and market conditions, and prepare the sales documentation and marketing campaign. The Privatization Agency will split the seven companies into three groups and seek strategic investors for them before any bids are filed. A future merging of companies is possible. The Ministry of Energy believes that electricity-distribution companies should be consolidated to make the power sector more efficient and to prevent large differences in regional prices.

Stakes between 51 and 70 percent in each company from the three groups will be put up for sale; only bids from financially stable companies, experienced in electricity distribution, will be accepted. More than 60 companies have already shown interest.

Ministry of Energy data show that the seven distribution companies have a total of 4.5 million clients and sell on average 19 billion kW of electricity. In 2000, the gross profit of the companies was 11 million euros, and in 2001, 16.7 million euros. The projected 2002 profit is 22 million euros. Investments in these companies reached 20.4 million euros in 2001. In 2002, investments were expected to exceed 23 million euros. The units in Plovdiv and Sofia were the best performers in 2001, posting sales of 3.7 and 3.2 million kW, respectively.

In addition to the distribution companies, 21 small hydropower plants will be privatized, as will seven of the district heating companies. These companies no longer receive budget subsidies. The last stage of privatization in the energy sector will be the sale of thermal power plants. By the end of 2004, the thermal power plants in Varna, Bobov Dol, and Rousse will be sold.

Bulgaria has faced tough negotiations with the European Union on the prior closure of four of the 440 MW reactors at the Kozloduy nuclear power plant. Units one and two were shut down at the end of 2002; a consortium is managing their decommissioning. Some Bulgarian officials want to extend the use of units three and four to the end of their operational life in 2010. The European Union is seeking the closure of these reactors in 2006.

Kozloduy sells its power to the National Electricity Company at approximately \$0.019/kW. Other Bulgarian utilities sell their power within the price range of \$0.02 to \$0.04. It is predicted that the average cost of electricity will rise in Bulgaria as the Kozloduy units are shut down. One strategy currently being reviewed by the government is the construction of a new nuclear power plant at Belene. A previous project to build a plant at this site was started in the late 1980s, but no construction has taken place for a decade. However, several international companies have expressed interest in revisiting the project.

For further information, contact Emily Taneva in Sofia: emily.taneva@mail.doc.gov.



Around the Region

Region: 2.5-Percent Growth in 2002



According to *Transition Report Update*, a publication of the European Bank for Reconstruction and Development, the countries of Central and Eastern Europe experienced average GDP growth of 2.5 percent in 2002. The EBRD expects this to rise to 3.4 percent in 2003. This growth is primarily due to economic recovery in Poland and a strengthening of growth in the Czech Republic after the devastating floods of 2002. Higher consumer spending and net capital inflows have also boosted growth. Source: EBRD.

Albania: Privatization Schedule Drafted



The Albanian government has drafted a schedule for the privatization of key sectors of the economy to encourage economic growth. Privatization will begin in June and include energy corporation KESH, railways, the seaport of Durres, the oil and gas sector, the coal mining and water supply sectors, and Albtransport. The government has already begun privatization of the savings bank, telecommunications company Telekom, and state insurance company INSIG. Source: *Albanian Daily News*.

Albania and Kosovo: FTA Negotiations



The first round of discussions on a free trade agreement (FTA) between Albania and Kosovo have been held with the U.N. mission in Kosovo. Discussions focused on the economic climate in Albania and Kosovo, trade prospects, current customs regimes, and relations with the European Union. A draft text of the FTA was agreed upon. The next set of negotiations will discuss more technical issues, such as the goods that will face gradual tariff reductions, the harmonization of legislation, and rules of origin. The next round of discussions should take place in June, and it is anticipated that the agreement will be signed in September. Source: *Albanian Daily News*.

Romania: Road Rehabilitation Project



Credit Suisse First Boston signed a \$100-million loan agreement with the Ministry of Public Works, Transportation, and Housing for the rehabilitation of national roads in Romania. Ministry officials said the 10-year loan was extended with very favorable conditions. The Romanian Road Administration will use the funds for primary rehabilitation of roads. Source: Romanian press.

Lithuania: High GDP Growth in 2002

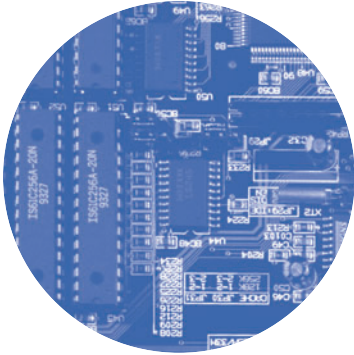


Lithuania's 2002 GDP increase of 6.7 percent was higher than that of any other European economy. This figure also exceeded all forecasts. Foreign direct investment, while lower per capita than in many other EU candidate countries, grew by 24 percent in 2002. Strong growth is predicted to continue in 2003, as low interest rates and a maturing credit market persist. Source: U.S. embassy report.



Central and Eastern Europe Commercial Opportunities

Czech Republic: Electronics Producer Seeks Joint Venture



A Czech company specializing in the production of small electronic products, small electrical appliances, and storage/warehousing and material handling of such goods is seeking a joint-venture partner. The Czech company owns a new industrial facility on the outskirts of the city of Brno, the second-largest city in the Czech Republic. The facility is situated in an industrial zone, offering the possibility of further expansion (up to five hectares). The site has a total area of about 1,000 square meters. It includes an assembly line, office space, and a storage area. The company is looking for partners to pursue production in the above-mentioned facility.

Contact:
Kristyna Kapickova
Economic Chamber of the Czech Republic
E-mail: kapickova@komora.cz

Lithuania: VP Market Seeks U.S. Suppliers of Variety of Goods



VP Market is a well-established private company, and the biggest operator of retail supermarket chains in the Baltic states. The company's main activity is retail trade of food products and manufactured goods. VP Market, established in 1992, operates a chain of 217 supermarkets, including Minima, Media, Maxima, Hyper-Maxima, Maxima-Baze, T-Market, and Baze in Estonia, Latvia, and Lithuania. The company has 166 supermarkets in Lithuania, 50 in Latvia, and one in Estonia. VP Market is looking for U.S. suppliers of consumer goods, sporting goods, office supplies, gardening equipment/supplies, toys, Christmas decorations/gifts, footwear, apparel, outdoor furniture/goods, office equipment/furniture, and pharmaceuticals. In 2003, VP Market plans to expand and open new supermarkets in Lithuania and Latvia. The company has allocated approximately \$100 million for new investments. VP Market is successfully implementing its development plan to have at least one store in each Lithuanian city

and town with a population of more than 4,000 people. More than 400,000 customers visit the company's stores every day.

Contact:
Mindaugas Pilkauskas
VP Market
Savanoriu 247
2053 Vilnius
Lithuania
Tel: +370-5 268-67-87
Fax: +370-5-268-67-00
E-mail: mindaugas.pilkauskas@vpmarket.lt

Romania: Tourism Investment Projects



The county councils of Satu Mare and Maramures, and the local councils of Negresti Oasi and Borsa (in northwestern Romania), have launched a multi-million-dollar tourism project for the Luna Ses-Borsa region. Feasibility studies will focus on the construction of the infrastructure necessary to develop a Western-standard, all-season mountain resort with 11 ski runs, three ramps, and 11 chairlifts. The resort would also have areas and facilities for ski racing, snowboarding, snowmobiling, bobsledding, and skating. The project includes plans for hotels, villas, chalets, restaurants, and entertainment areas. The estimated investment is \$210 million.

Contact:
Cristina Marine
CEEBC
E-mail: cristina.marine@ita.doc.gov
or
Robert Balazs
CEEBC
E-mail: robert@usembassy.dntcj.ro



Upcoming Events

June

6/10–6/12 Investment and Business Opportunities Conference

Bratislava and Kosice, Slovakia

Further information:

Sean Timmins

CEEBC

Tel: (202) 482-2645

E-mail: sean_timmins@ita.doc.gov

6/16–6/17 Montenegro Business and Investment Summit

Budva, Montenegro

Further information:

Zoran Cicak or Milica Kuburovic

Euro Convention

Tel.: +381-11-311-1257

Fax: +381-11-311-1257

E-mail: info@euroconvention.com

July

7/7 First Lithuanian-American Business Forum

Vilnius, Lithuania

Further information:

Jolanda Kriskoviciene

Embassy of Lithuania

Tel: (202) 234-5860, ext. 112

Fax: (202) 328-0466

E-mail: jolanda.kriskoviciene@ltembassyus.org

7/14–7/19

Business Development Mission to Bulgaria and Romania

Sofia, Bulgaria; Bucharest, Romania

Led by Deputy Secretary of Commerce Samuel W. Bodman, Assistant Secretary and Director General of the U.S. Commercial Service Maria Cino, and Assistant Secretary for Market Access and Compliance William H. Lash III.

Sectors: automotive parts and services, building products, IT, telecommunications, defense, energy, medical products, pollution control equipment/services, and tourism infrastructure.

Further information:

Office of Business Liaison,

U.S. Department of Commerce

Tel: (202) 482-1360

August

8/27–8/29 World Information Technology Forum

Vilnius, Lithuania

Further information:

E-mail: r.gudauskas@lrvt.lt

Web site: www.witfor.lt

For a more complete list of events, go to CEEBCnet: www.export.gov/ceebic.

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Albania—from page 1

sales with a combined 90-percent market share. Interesting software-market developments for the next three years include application software, networking software, electronic design automation, Internet software, e-business and e-government management solutions, enterprise planning, Web-design software, and banking software. Local production of software does not have more than a 5-percent share of the market.

Telecommunications Sector

The state-owned fixed-telecommunications monopoly, Albtelecom, and two mobile telecommunications companies,

Albanian Mobile Communications (AMC) and Vodafone, dominate the telecommunications sector.

Albtelecom, with approximately 220,000 subscribers, maintains 100-percent digital exchanges and transmission equipment, including a digital backbone based on fiber-optic cables.

Although the Albanian government has attempted to privatize Albtelecom, foreign investors have not shown great interest; the government anticipates re-launching the privatization process in 2004. AMC

was privatized in 1999 and is the largest mobile telecommunications company in Albania with approximately 450,000 subscribers. Vodafone, the second-largest GSM mobile telecommunications operator, has approximately 150,000 subscribers, and it is growing very rapidly.

All telecommunications operators are interconnected to Albtelecom. AMC and Vodafone have their own microwave-linked backbones. The interconnection between AMC, Vodafone, and Albtelecom is used only for international and terminal traffic. Moreover, the rural telecommunications market has been fully liberalized. Approximately 35 licenses have been awarded, 15 of which are operational.

There are many opportunities for U.S. companies to participate in upgrades to telecommunications infrastructure and equipment. In 2003 or 2004, the Albanian government will award a third, and potentially a

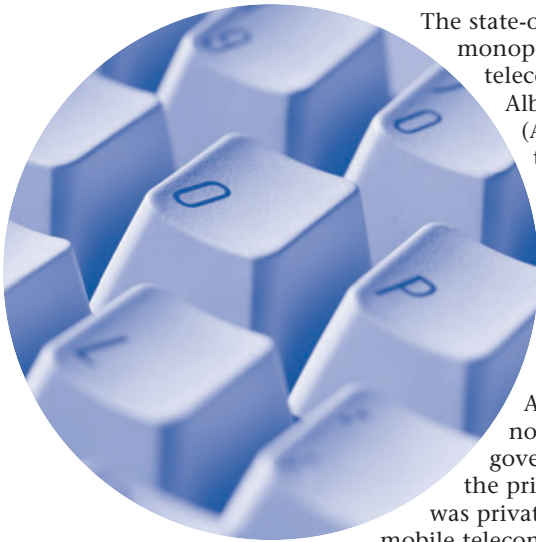
fourth, GSM license. U.S. manufacturers of GSM infrastructure may get involved in network implementation. Albtelecom's monopoly will expire at the end of 2003. American companies should benefit from market liberalization by investing in fixed-telecommunications networks. These networks also use the wireless local loop. U.S. companies may be instrumental in implementing an international gateway and offering competitive prices for international calls. Currently, Albania lacks countrywide data transmission, despite the increasing demand for this service.

There are several foreign suppliers of telecommunications equipment in Albania, the most significant of which is France's Alcatel. Alcatel has supplied Albtelecom with approximately 80 percent of its switches, 50 percent of its digital microwave links, 50 percent of its international fiber-optic submarine cables, and 100 percent of its data processing and Internet equipment. Other significant companies present in the Albanian market are Nokia, which has supplied all GSM infrastructure for AMC, and Ericsson, which has supplied the infrastructure for Vodafone. As there is no domestic production of telecommunications equipment, other foreign companies present in the Albanian market include Siemens (Germany), Telesis (Turkey), Marconi (Italy), Iskra (Slovenia), and Motorola (United States).

Internet Service Providers

Although 30 companies are licensed as Internet service providers in Albania, only six are operational. Internet penetration is very low, mostly due to the high cost of personal computers, and Internet services are primarily available only in the capital, Tirana. ISPs primarily connect to the international Internet backbone, through Albtelecom, but also through dedicated satellite connections. The majority of subscribers have dial-up service; however, the number of directly connected organizations and governmental bodies is increasing daily.

For a complete report on Albania's IT and telecommunications sectors, visit www.mac.doc.gov/ceebic/countryr/albania/itc.htm.





EU Accession Extras

Industry Restructuring



Several industries in accession countries will be subject to a restructuring plan by the European Economic and Social Committee. The committee's written opinion, now under discussion, may affect the following sectors: shipbuilding, aircraft and aerospace, chemicals, rubber manufacturing, glassmaking, mechanical engineering, metallurgy, nuclear energy, and oil. Source: *Enlargement Weekly*.

Pan-European IDA



Slovenia, Poland, the Czech Republic, and Estonia have signed up as partners in the EU administrative data interchange (IDA) program. This electronic infrastructure project facilitates the exchange of data for supplying e-government services, applying EU law, and enforcing single-market rules. Hungary, Latvia, Lithuania, and Slovakia are next in line to join IDA. Source: *Enlargement Weekly*.

Romanian Plans for Accession



Romania continues to implement economic, administrative, and judicial reforms with a view to reaching the target accession date of 2007. In November 2002, the European Integration Ministry launched its priority accession plan, which expires at the end of 2003. The plan outlines the priorities of the pre-accession process as well as the legislative program supporting Romania's accession. Priorities of preparation for EU accession include:

- Acceleration of reform of public administration;
- Strengthening of administrative capacity in line with the common body of EU law;
- Reform of the judiciary;
- Fulfillment of market economy prerequisites;
- Fighting corruption;
- Consolidation of the political criteria for accession;
- Development of the financial-services sector and improvement of the business environment; and
- Enhancement of the capacity to assume the obligations of membership.

Progress has been made in Romanian negotiations with the European Union on accession matters. To date, 17 negotiation chapters have been provisionally closed, while negotiations are under way on 13 chapters.

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Director: Jay Burgess
Associate Director: Jennifer Gothard
Editorial Team: Leah Markowitz

International Trade Specialists: Cristina Marine
 Leah Markowitz
 Sean Timmins

Webmaster: Gedlom Tesfazion
Contributors: Jonathan Kimball
 Michael Rogers
 Silvia Savich
 Melissa Wilson

USA Trade Center
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